

General Fund

General Fund

Fund Purpose

The General Fund exists to account for the activity associated with traditional local government services such as police, fire, parks and recreation, planning and economic development and general City administration. Under Arizona State law, each city and town must maintain a General Fund and a Highway User Revenue Fund (see Special Revenue Fund section). The General Fund is the largest fund and typically the fund of most interest and significance to citizens.

General Fund Revenues and Transfers-In

General Fund resources include both revenues and transfers-in from other fund types such as the Special Revenue, Enterprise and Internal Service Funds. Estimated total revenues and transfers-in for FY 2004/05 increased approximately \$8.7 million (4.2%) from the FY 2003/04 year-end estimate. The increase from the prior year-end estimate is attributable primarily to increases in transaction privilege (sales) taxes \$1.9 million (2.2%), the primary property tax revenue \$1.1 million (6.4%), court fines and forfeitures \$0.5 million (16.0%), Tourism Sports Authority and County Sports Authority revenue \$1.3 million (100.0%) and special revenue transfer-in from the 2004 public safety sales tax fund of approximately \$4.2 million (100.0%) from the May 18th vote to increase the sales tax rate. Also, the state-shared revenues are projected to remain flat with the current year-end estimate, which represents the reversal of a multi-year declining trend in a major funding source. Growth in other revenues such as licenses, permits, fines and fees are expected to be much lower than in recent years and slow revenue growth is anticipated for Arizona and Scottsdale in the future. The development and permit fees are projected to decline \$2.3 million (13.6%) over the very strong FY 2003/04 performance. Revenue and transfers-in determine Scottsdale's capacity to provide program services to our citizens. The major resources, which fund the program operating budget, debt service and capital projects, are identified below.

Local Tax Revenues

Local Tax Revenues of \$117.7 million represent 54.8% of the General Fund total operating resources and are the fund's largest category of revenue source. With the exception of property taxes, these are all "elastic" revenues, meaning they vary directly with the economy – when the economy is good, they increase, as people are spending money and traveling, and during an economic downturn, the opposite is true. Local Taxes Revenues consist of the following:

Transaction Privilege (Sales) Tax represents the General Fund's 1.0 percent share of the City of Scottsdale's 1.65 percent local sales tax. The remaining 0.65 percent of the local sales tax is a dedicated .20 percent to the Transportation Privilege Tax Fund, .20 percent to the 1995 Preservation Privilege Tax Fund, .15 percent to the 2004 Preservation Privilege Tax Fund and .10 percent to the Public Safety Privilege Tax Fund (all are Special Revenue Funds). This revenue also includes sales tax application and penalty fees. This revenue is the General Fund's single largest revenue source and the General Fund portion of the tax is used to pay for general governmental operations and the repayment of excise debt. For FY 2004/05 the adopted revenue budget is \$84.8 million, which is nearly a \$1.9 million, or 2.2% increase over the FY 2003/04 year-end estimate of \$83.0 million. The increase in the general sales tax represents the early stages of a national, state, and local economic

Transaction Privilege (Sales) Tax Adopted Budget to Actual/Estimate* (in millions)

Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$84.8	\$84.8*
2003/04	\$77.4	\$83.0*
2002/03	\$84.0	\$79.7
2001/02	\$79.1	\$80.3

recovery. However, this slight increase in the sales tax revenues is nowhere near the City's mid to late 1990's experience, when it saw nine consecutive years double-digit growth in sales tax revenue. The tentative nature of the national, state and local economies, slow job growth, and the on-going threat of terrorism make it difficult to predict with certainty if the projected improvement is the start of a sustainable, long-term economic recovery or a short-lived surge.

Primary Property Tax represents the General Fund's portion of the Primary Property Tax which is levied on the assessed value of all property within the City to help pay for City general governmental operation costs. By Arizona State Statute, the primary property levy is limited to a 2.0 percent increase per year, plus an allowance for annexations and new construction. Another component of the primary property tax accounts for the reimbursement to the City for the cost of liability claim judgments as allowed by State Statute. This component becomes revenue to the City's Self-Insurance Fund and will be discussed more fully in the Internal Service Funds section. Primary property tax accounts for 8.2% of the total projected FY 2004/05 General Fund resources. The FY 2004/05 revenue forecast of \$17.6 million represents an increase of slightly less than \$1.1 million or 6.4% from the FY 2003/04 year-end estimate of \$16.6 million. The increase in revenue is due to an increase in assessed valuations – 6.2% average increase in existing properties and 4.6% from new construction. The primary property tax rate of \$0.45 per \$100 of assessed valuation will result in an annual levy of \$450 for the owner of a home valued at \$100,000.

Transient Occupancy ("bed") Tax comes from Scottsdale collecting a 3.0 percent Transient Occupancy Tax on hotel and motel room rentals in addition to the sales tax. Currently, one-third of this tax is used to pay for General Fund operations. Per City Ordinance 2045/2291 (amended), the other two-thirds is restricted for use for tourism and hospitality purposes and pays for contracts to increase tourism and debt service for destination attractions. The adopted FY 2004/05 budget includes an amendment to the ordinance and an increase of the allocation from 66.7 percent to 80.0 percent to continue supporting tourism and hospitality development purposes. The remaining 20.0 percent will be used to pay for General Fund operations. The adopted FY 2004/05 budget of \$6.7 million reflects a \$68,000 or 1.0 percent decrease from the FY 2003/04 year-end estimate of \$6.8 million. The ongoing uncertainty regarding the economic recovery and concerns over acts of terrorism are likely to continue to influence business and pleasure travel. Additionally, growing competition with more rooms available at new resorts in neighboring jurisdictions limits the likelihood of growth in this revenue in FY 2004/05 and beyond.

Primary Property Tax
Adopted Budget to Actual/Estimate*
(in millions)

Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$17.6	\$17.6*
2003/04	\$16.6	\$16.6*
2002/03	\$15.4	\$15.6
2001/02	\$14.3	\$13.7

Transient Occupancy ("bed") Tax
Adopted Budget to Actual/Estimate*
(in millions)

Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$6.7	\$6.7*
2003/04	\$6.6	\$6.8*
2002/03	\$7.6	\$6.7
2001/02	\$7.9	\$6.7

Other Taxes — Franchise, In-Lieu Property Tax and Fire Insurance Premium are budgeted at \$8.5 million in FY 2004/05 and include franchise taxes charged on revenues from utility companies and cable companies for use of City right-of-ways, an in-lieu property tax for municipal utilities, and a fire insurance premium tax, which is used to help supplement fire protection service costs. The light and power franchise is projected to increase a very nominal 2.0% or \$0.1 million. The cable TV franchise tax and Salt River Project In Lieu Tax are projected to remain at the FY 2003/04 year-end estimates, which more accurately reflect the actual revenue collection trends. The fire insurance premium revenue is projected to have the greatest percent increase at 17.8% or \$75,700. The increase is driven by increased property insurance rates, which serve as the basis for applying the tax.

Other Taxes Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$8.5	\$8.5*
2003/04	\$8.3	\$8.3*
2002/03	\$8.2	\$8.2
2001/02	\$6.5	\$8.0

State-Shared Tax Revenues

State-Shared Tax Revenues include the state sales tax, income tax collections, and auto lieu tax, which are shared with all cities and towns throughout the state and represent \$42.4 million or 19.7% of the total General Fund resources. The formula for distribution of the sales and income tax revenue is based upon the relation of the City's population to the total state population. The State Department of Revenue collects and distributes funds and provides revenue forecasts to cities and towns for these revenue sources. The auto lieu tax is shared based on the City's population in relation to the total incorporated population of Maricopa County. Scottsdale's portion of the state-shared taxes is expected to increase in FY 2004/05 by nearly \$0.5 million or 1.1% from the FY 2003/04 year-end estimate of \$41.9 million. The slow emerging economic recovery is the main reason for the increase. The projected state-shared revenues do not factor in any reduction that may result from actions of the state legislature. Looking forward, the consensus for the economic growth statewide and the region is slow. Our conservative budget estimates for state-shared revenues project slow to no growth for these revenue sources. State-Shared Revenues consist of the following:

State Sales Tax for FY 2004/05 is expected to be \$16.5 million, which represents an extremely modest increase of \$0.3 million or 2.0% from the FY 2003/04 year-end estimate. Cities and towns share in a portion of the 5.0% sales tax collected by the State – the State retains 50.0%, schools are designated to receive 40.0%, and the remaining 10.0% is allocated to cities and towns based on percentage of population. The FY 2004/05 forecast and beyond is conservative. Future budget years assume an annual increase of approximately 2.0% over the five-year forecast period. The exception is FY 2006/07, which reflects a decrease resulting from the mid-decade Special Census of the Phoenix metro area that will likely have an adverse impact on the City's share, as faster growth cities and towns within the region receive an increased proportion of the overall pool of state-shared revenues.

State Sales Tax Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$16.5	\$16.5*
2003/04	\$15.4	\$16.2*
2002/03	\$15.8	\$15.9
2001/02	\$16.7	\$15.6

State Income Tax budget of \$18.0 million for FY 2004/05 is projected to remain flat with the current year-end estimate. The state-shared income revenue projection is based on conservative estimates, and the expectation any income increases realized by citizens in FY 2004/05 from the emerging economic recovery would not be realized immediately by the City. This is due to the two-year lag between the time citizens earn and report results to the State and then the State submits the actual revenues to cities and towns. Cities and towns in Arizona are prohibited from levying an income tax; however, they are entitled to 15.0 percent of state income tax collections from two years previous. For example, the revenue distribution for FY 2004/05 will come from the income tax paid in 2002, on income earned in calendar year 2001. Like the State Sales Tax, the FY 2004/05 forecast and beyond is conservative. Future budget years assume an annual increase of approximately 1.0% over the five-year forecast period. The exception is FY 2006/07, which again reflects a decrease resulting from the mid-decade Special Census of the Phoenix metro area that will likely have an adverse impact on the City's share, as faster growth cities and towns within the region receive an increased proportion of the overall pool of state-shared revenues.

State Income Tax Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$18.0	\$18.0*
2003/04	\$18.0	\$18.0*
2002/03	\$21.1	\$21.6
2001/02	\$20.8	\$21.1

State Auto Lieu Tax is part of the vehicle license fees collected by Maricopa County, but is actually a State revenue source. The City receives its share of the vehicle license tax collection based on its population in relation to the total incorporated population of Maricopa County. The only stipulation on the use of this revenue is that it must be spent on a public purpose. The City has designated these tax proceeds for transportation services. The budget for FY 2004/05 is projected to be \$7.8 million, which represents an increase from the FY 2003/04 year-end estimate of nearly \$0.2 million or 2.0%.

State Auto Lieu Tax Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$7.8	\$7.8*
2003/04	\$6.9	\$7.7*
2002/03	\$6.7	\$8.0
2001/02	\$6.9	\$6.7

Licenses, Permits & Fees Revenues

Licenses, Permits & Fees Revenues include revenue from various business licenses, all fees recovered as a part of the development process, and recreation fees. This category includes building, electrical, mechanical, and plumbing permits, as well as subdivision, zoning, and plan check fees. Recreation Fees include revenue from the various recreational programs, classes, entry fees, and WestWorld Equestrian Facility event revenue. In accordance with Scottsdale's financial policy, all fees and charges are reviewed annually.

Scottsdale's development activity is slowing as our community is changing from growth oriented to a maturing community focused more on sustaining its high quality of life. New commercial and residential construction activity is expected to continue, but at a slower pace, due to the attractiveness of Scottsdale, the low commercial vacancy rates along with historically low mortgage interest rates. Licenses, Permits & Fees Revenue consist of the following:

Development Permits & Fees in FY 2004/05 are expected to be approximately \$14.3 million, which is nearly a \$2.3 million or 13.6% decline from the FY 2003/04 year-end revenue estimate. Commercial construction is expected to remain steady as a result of the completion of the Pima (101) Freeway, which will spur activity in the Perimeter Center and Horseman's Park areas and the Stacked 40 project, as well as continued investment in the Scottsdale Airpark area. The focus on downtown revitalization projects such as Loloma Museum, the Waterfront, and Los Arcos will continue development activity. Additionally, there exists the possible start of large in-fill projects such as Northsight and the former PCS site.

The housing growth that continues to occur will be focused more on the custom home segment with values over \$400,000 while the construction of production homes and multi-family housing will continue to decline as less land is available for their construction. In addition, single-family remodeling and fix-up activity has been increasing at a fast pace and likely will grow more as the housing stock matures and less undeveloped raw land is available.

While the FY 2004/05 development permit revenue forecast is conservative when compared to historical trends, it factors in the complexity and changing nature of the development activity expected throughout the City. These trends are continually monitored in order to make management adjustments during each fiscal year. The FY 2004/05 budget includes no increase in the development fees charged to customers.

Business Licenses & Fees in FY 2004/05 are budgeted at \$1.8 million, reflecting no increase from the FY 2003/04 year-end estimate. The increase is based on historic growth trends.

Development Permit & Fees Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$14.3	\$14.3*
2003/04	\$13.5	\$16.5*
2002/03	\$15.5	\$15.4
2001/02	\$19.0	\$15.7

Business Licenses & Fees Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$1.8	\$1.8*
2003/04	\$1.8	\$1.8*
2002/03	\$1.7	\$1.8
2001/02	\$1.7	\$1.8

Recreation Fees are budgeted at \$2.2 million and include revenue from the various recreational programs, classes, and entry fees. In accordance with the City's adopted financial policies, recreation fees are reviewed and adjusted annually, if the increase is justified by the analysis and approved by City Council.

Recreation Fees Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$2.2	\$2.2*
2003/04	\$2.2	\$2.2*
2002/03	\$2.1	\$2.2
2001/02	\$2.1	\$2.0

WestWorld Fees event revenue is expected to be approximately \$1.6 million. In accordance with the City's adopted financial policies, recreation fees are reviewed and adjusted annually, if the increase is justified by the analysis and approved by City Council.

WestWorld Fees Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$1.6	\$1.6*
2003/04	\$1.5	\$1.6*
2002/03	\$1.3	\$1.5
2001/02	\$1.3	\$1.5

Fines and Forfeiture Revenues

Fines and Forfeiture Revenues include court, parking, photo radar, and library fines. In the aggregate, the revenue for these items in FY 2004/05 is projected to be \$5.6 million for an increase of approximately \$0.8 million over the prior year. The detail of these revenues is noted below:

Court Fines are conservatively budgeted at \$3.9 million, which reflects a \$0.5 million increase from the FY 2003/04 year-end estimate. The FY 2003/04 year-end forecast includes \$0.3 million for the negative impacts from the State of Arizona's enacted shared-court collections, which retained 75% of the judicial collections each municipal court received in excess of their FY 2002/03 baseline collections during the fiscal year. The court fine collections were deposited in the State's General Fund and were to pay for the costs associated with the State's newly created collection system and enhance city and town court collections. For FY 2004/05, the State Legislature repealed the legislation. Therefore, \$0.3 million of this revenue increase is attributable to the State Legislature repealing the legislation.

Court Fines Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$3.9	\$3.9*
2003/04	\$3.7	\$3.4*
2002/03	\$3.5	\$4.2
2001/02	\$3.8	\$3.4

Parking Fines are conservatively budgeted at slightly more than \$0.2 million for FY 2004/05, which is approximately \$87,200 more than the FY 2003/04 year-end estimate. This increase includes \$20,300 for the State of Arizona's enacted shared-court collections as noted above in Court Fines, which retained 75% of the judicial collections each municipal court received in excess of their FY 2002/03 baseline collections during the fiscal year. For FY 2004/05, the State Legislature repealed the legislation.

Parking Fines Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.2	\$0.2*
2003/04	\$0.1	\$0.1*
2002/03	\$0.1	\$0.2
2001/02	\$0.2	\$0.1

Photo Radar Fines are budgeted at approximately \$1.1 million for FY 2004/05, which represents an increase of approximately \$0.2 million over the FY 2003/04 year-end estimate. This increase includes \$0.1 million, which is also attributable to the State Legislature repealing the legislation to retain 75% of the judicial collections each municipal court received in excess of their FY 2002/03 baseline collections during the fiscal year as noted in Court Fines. Additionally, the current photo radar contract was awarded during the summer of 2003 and included more red-light cameras, capable of detecting both red light running and a vehicle's speed. The cameras were installed during FY 2003/04. Having the cameras in place for the full fiscal year should contribute to an increase in revenue in FY 2004/05. However, the use of photo radar is intended as a deterrent to unsafe driving, not as a revenue producer.

Photo Radar Fines Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$1.1	\$1.1*
2003/04	\$1.1	\$0.9*
2002/03	\$1.1	\$0.8
2001/02	\$1.5	\$0.8

The May 18, 2004 voter approved 0.10% increase in the sales tax rate will fund expanded photo radar (three new sites). No additional revenue for these additional sites was factored into the FY 2004/05 revenue estimate.

Library Fines are expected to remain flat with the FY 2003/04 year-end estimate of approximately \$0.4 million for FY 2004/05. In accordance with the City's adopted financial policies, the library fines are reviewed and adjusted annually, if necessary. No increase in fines is included in the FY 2004/05 budget.

Library Fines Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.4	\$0.4*
2003/04	\$0.4	\$0.4*
2002/03	\$0.4	\$0.4
2001/02	\$0.4	\$0.4

Interest Earnings

Interest Earnings are generated on idle General Fund cash balance throughout the year. Interest revenue is expected to be approximately \$1.6 million for an increase of less than \$0.1 million over the FY 2003/04 year-end estimate of \$1.5 million. This revenue is a function of the relationship between the City's available cash balance and the interest rate. The City earns interest on idle funds through various investment vehicles in accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield and allows investments in U.S. Treasury and Agency obligations, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements, money market funds, and the State of Arizona's Local Government Investment Pool. Interest earnings applicable to bond proceeds and the Capital Improvement Plan (CIP) accrue to the CIP budget and are not included in General Fund revenues.

Interest Earnings Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$1.6	\$1.6*
2003/04	\$0.8	\$1.5*
2002/03	\$3.3	\$1.7
2001/02	\$6.3	\$4.0

Property Rental Revenues

Property Rental Revenues are rental fees on facilities such as the Scottsdale Stadium, as well as amounts received from the Tournament Players Club and Princess Hotel for percent of revenue on gross sales agreements. The projected FY 2004/05 revenues of \$3.4 million represent a \$0.4 million increase in Property Rental revenue over the FY 2003/04 year-end estimate. The increase is attributable to a combination of scheduled increases in rental payments of \$0.3 million, plus the Thunderbird's \$80,000 contribution, which was waived in FY 2003/04 under the terms of the lease agreement.

Property Rental Revenues Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$3.4	\$3.4*
2003/04	\$3.3	\$3.0*
2002/03	\$3.4	\$2.5
2001/02	\$3.0	\$2.5

Other Revenue

Other Revenue is projected to increase by \$2.0 million in FY 2004/05 over the current year-end estimate. The increase is due to the City receiving its first contributions from the Tourism Sports Authority and County Sports Authority (TSA and CSA) for the repayment of the Giants professional baseball practice facility and an increase in the environmental water quality charge to help fund a portion of the “unfunded”, federally-mandated Stormwater Management program.

Miscellaneous revenue is projected to be \$1.2 million for FY 2004/05, which includes various miscellaneous revenues the City receives during any given year that are not attributable to one of the specific revenue categories noted above. The revenue is expected to increase \$0.1 million from the FY 2003/04 year-end estimate of \$1.1 million.

Stormwater Quality Charge revenue of approximately \$0.6 million in FY 2004/05 relates to a 1.0% increase to an existing environmental water quality charge to help pay a portion of the Stormwater Management program costs. These costs are driven by “unfunded” federal mandates that require the City to operate under a National Pollution Discharge Elimination System (NPDES) permit and to address the quality of stormwater runoff.

Tourism Sports Authority and County Sports Authority (TSA and CSA) revenue is projected to be \$1.3 million in FY 2004/05. The City’s first contributions from both the TSA and CSA will be used to pay for \$18.0 million of debt service payments associated with the Giants professional baseball practice facility. It is anticipated the debt will be issued in March of 2005 with the TSA and CSA being responsible for \$12.0 million and \$6.0 million, respectively. Annually, the TSA will pay approximately \$0.9 million and the CSA will pay over \$0.4 million for the debt service repayment.

Other Revenue Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$3.1	\$3.1*
2003/04	\$1.5	\$1.1*
2002/03	\$2.0	\$1.9
2001/02	\$2.0	\$1.1

Transfers-In

Transfers-In essentially represent the reimbursement of cost incurred for services (i.e., utility billing, payroll processing, benefits administration, etc.) provided and paid by the General Fund on behalf of the Enterprise Fund. The cost of the services provided by the General Fund is allocated annually to these user funds on a rational and equitable basis. The total transfers-in for FY 2004/05 are expected to increase by \$4.1 million over the FY 2003/04 year-end estimate. The main driver in this increase is the \$4.2 million transfer-in from the Special Revenue-Public Safety Privilege Tax Fund.

The adopted General Fund budget includes approximately \$4.2 million of appropriations for public safety initiatives, which is a result of the May 18, 2004 vote to increase the City’s privilege (sales) tax from 1.40 percent to 1.65 percent. (Public Safety .10% and Preserve .15%). The additional (.10%) public safety privilege taxes will be used to hire additional police officers with focused enforcement in the citizen noted high demand service areas: traffic, driving under the influence, computer crimes, District 1, vice enforcement, code enforcement, photo red light operations as well as a special patrol in City parks and the McDowell Sonoran Preserve. The new public safety privilege taxes will also be used for related public safety capital equipment and facilities and to hire additional firefighters.

General Fund Expenditures By Expenditure Type

The General Fund expenditures are presented by the following five major expenditure categories: personal services, contractual services, commodities, capital outlay, and debt service. Additionally, there are transfers-out to other funds.

Personal Services adopted budget of \$120.8 million represents 61.1% of the FY 2004/05 General Fund Operating Budget of \$197.6 million. The adopted FY 2004/05 personal services budget increased \$6.8 million or 6.0% from the FY 2003/04 adopted budget. The adopted General Fund budget includes 65.34 new full-time equivalent (FTEs) staff positions at an estimated total cost of over \$3.0 million. The General Fund additions can be summarized as follows:

	FTEs	Est. Cost
Fire Transition (civilians)	13.50	\$0.5M
New Public Safety	44.00	\$2.1M
Other High Priority Service Areas	7.84	\$0.4M
Total	65.34	\$3.0M

Personal Services Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$120.8	\$120.8*
2003/04	\$114.0	\$114.0*
2002/03	\$106.2	\$104.4
2001/02	\$100.8	\$96.0

Further detail on the new FTEs is provided below:

The addition of 13.50 new FTEs will be needed to support the City's transition to a municipal fire department by July 1, 2005. The estimated cost of these new positions is slightly over \$0.5 million, based on staggered hiring dates during FY 2004/05.

The additions also include 44.0 new public safety FTEs funded by the public safety privilege sales tax increase approved by voters on May 18, 2004 at an estimated cost of approximately \$2.1 million. The positions will be used in FY 2004/05 to enhance public services outlined in the public safety strategic plan including increased police enforcement in traffic, driving under the influence, computer crimes, District 1, vice enforcement, code enforcement, photo red light operations, as well as a special patrol in City parks and the McDowell Sonoran Preserve. Beyond next fiscal year, the public safety privilege taxes will be used to address other public safety strategic plan items such as additional bike units, traffic patrol, and other capital needs.

The additional 7.84 new FTE's will address ongoing high priority services areas such as code enforcement, downtown, parks and recreation, economic development, and enhanced building security at an estimated cost slightly over \$0.4 million. The 2.0 code enforcement FTEs will address citizens' increased demand for code enforcement throughout the whole City. The 1.0 FTE for the recently formed Downtown Group will provide clerical and administrative support for the staff and Executive Director. The 1.84 FTEs for parks and recreation include 1.0 additional maintenance technician to continue pro-actively handling the growth in facilities square footage. The other .84 FTE in parks is for

additional part-time recreation leaders for the Tonalea after school program. The 2.0 Economic Vitality FTEs will provide increased support for job creation efforts in retail and the biomedical industry and enhance the City's economic development research capability. Finally, 1.0 FTE is for the mailroom to handle the increased security and expanded screening of the City's mail.

The personal services costs include a 2.5 percent cost of living pay adjustment equaling \$2.7 million for City personnel. The adopted budget also maintains the City's merit pay program at an estimated cost of \$1.2 million for those employees that have earned the increase through job performance and have not reached the top of their position range. Externally driven cost factors increased the City's contribution to Arizona Public Safety Retirement System for FY 2004/05 by \$0.6 million. Conversely, the City's health care cost containment initiatives started in the current year will yield over \$1.1 million of cost avoidance in the FY 2004/05 budget.

Contractual Services adopted budget of \$57.5 million represents 29.1% of the FY 2004/05 General Fund Operating Budget of \$197.6 million. The FY 2004/05 budget of \$57.5 million is \$3.8 million or 7.1% more than the FY 2003/04 adopted budget. The increase in Contractual Services is primarily attributable to the combination of two items. The first is a general increase in contractual services costs of approximately \$3.5 million due to inflation and nominal usage increases.

Second, the adopted budget of \$57.5 million includes \$0.3 million to fund contractual services attributed to the favorable outcome of the public safety vote on May 18. The new positions funded with the public safety sales tax will be used to enhance public services outlined in the public safety strategic plan including increased police enforcement in the following areas: traffic, driving under the influence, computer crimes, District 1, vice enforcement, code enforcement, photo red light operations, as well as a special patrol in City parks and the McDowell Sonoran Preserve. Beyond next fiscal year, the public safety privilege taxes will be used to address other public safety strategic plan items such as additional bike units, traffic patrol, and other capital needs.

Commodities adopted budget of \$6.1 million represents 3.1% of the FY 2004/05 General Fund Operating Budget of \$197.6 million. The budget of \$6.1 million is \$1.3 million more than the FY 2003/04 adopted budget. The increase in Commodities is primarily attributable to the combination of two items. The first is a general increase in commodities costs of approximately \$0.4 million due to inflation and nominal usage increases.

Second, the adopted Commodities budget of \$6.1 million includes \$0.8 million to fund commodities attributed to the favorable outcome of the public safety vote on May 18. The new positions funded with the public safety sales tax will be used to enhance public services outlined in the public safety strategic

See glossary for
Expenditure Type
definitions.

Contractual Services Adopted Budget to Actual/Estimate* (in millions)

Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$57.5	\$57.5*
2003/04	\$53.7	\$53.7*
2002/03	\$56.6	\$54.2
2001/02	\$56.4	\$54.8

Commodities Adopted Budget to Actual/Estimate* (in millions)

Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$6.1	\$6.1*
2003/04	\$4.8	\$4.7*
2002/03	\$5.5	\$5.5
2001/02	\$6.4	\$6.4

plan including increased police enforcement in the following areas: traffic, driving under the influence, computer crimes, District 1, vice enforcement, code enforcement, photo red light operations, as well as a special patrol in City parks and the McDowell Sonoran Preserve. Beyond next fiscal year, the public safety privilege taxes will be used to address other public safety strategic plan items such as additional bike units, traffic patrol, and other capital needs.

The Budget staff continues to review each department's proposed expenditure budget using a zero-based program budget approach. Under this approach, line item-expenditure budgets are carefully evaluated and justified, while providing for required increases that are called for in the current or pending contractual and commodities contracts.

Capital Outlay adopted budget of \$1.1 million represents 0.6% of the FY 2004/05 General Fund Operating Budget of \$197.6 million. The adopted FY 2004/05 Capital Outlays budget of \$1.1 million includes \$1.0 million to fund capital outlays attributed to the favorable outcome of the public safety vote on May 18. The new positions funded with the public safety sales tax will be used to enhance public services outlined in the public safety strategic plan including increased police enforcement in the following areas: traffic, driving under the influence, computer crimes, District 1, vice enforcement, code enforcement, photo red light operations, as well as a special patrol in City parks and the McDowell Sonoran Preserve. As result of the ongoing zero-based program budget approach, the capital outlays have been included in the budget on a very limited basis. Capital outlays less than \$25,000 are funded from the Program Operating Budget, while those equal to or greater than \$25,000 are funded from the City's Capital Improvement Plan.

Debt Service budget of \$12.1 million represents 6.1% of the FY 2004/05 General Fund Operating Budget of \$197.6 million. The FY 2004/05 budget of \$12.1 million is \$0.6 million more than the FY 2003/04 adopted budget. The General Fund debt service is comprised of \$4.5 million in Contracts Payable and \$7.6 million in Municipal Property Corporation Bonds for FY 2004/05.

Contracts payable of \$4.5 million represent debt related to sales tax development agreements such as the Nordstrom Garage Lease, Hotel Valley Ho, Waterfront project, Stacked 40 and the Promenade Agreement.

Municipal Property Corporation (MPC) Bonds are issued by the City of Scottsdale Municipal Property Corporation (MPC), a nonprofit corporation created by the City in 1967, solely for the purpose of constructing, acquiring and equipping buildings, structures, or improvements on land owned by the City. A Board of Directors appointed by the City Council governs the MPC. The debt incurred by the corporation is a City obligation

Capital Outlay Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$1.1	\$1.1*
2003/04	-	\$0.2*
2002/03	\$0.1	\$0.4
2001/02	\$2.7	\$1.3

Debt Service Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$12.1	\$12.1*
2003/04	\$11.5	\$9.8*
2002/03	\$13.3	\$12.7
2001/02	\$10.5	\$10.3

and the repayment of debt is financed by pledged General Fund excise taxes. The scheduled MPC debt repayment included in the FY 2004/05 budget is \$7.6 million.

Transfers-Out in FY 2004/05 total \$21.2 million and includes \$3.7 million to the Capital Fund to cover the cost of on-going capital maintenance. The adopted budget also includes a transfer-out of \$7.2 million to the Capital Fund, which includes \$3.0 million for current investments in capital projects, \$2.0 million for Neighborhood Revitalization south of Camelback Road, \$0.2 million for the Police Mounted Patrol Barn Replacement and \$2.0 million added to the General Fund CIP Contingency. Additionally, a transfer out of \$5.8 million is included to cover one-time Fire transition capital costs. These one-time capital costs are necessary in order to transition to a municipal Fire department in July 2005. Additionally, \$3.7 million will be transferred-out to the Highway User Revenue Fund for transportation related operating costs (subsidy), \$0.6 million to the Self-Insurance Fund, \$0.1 million to the Aviation Fund for fuel tax collected and receipted in the General Fund, and \$0.1 million to the Special Revenue Fund for the Affordable Housing program grant match and the for the preservation and maintenance of properties on Scottsdale's Historic Register.

Revenues Over/(Under) Expenditures

The \$4.1 million excess of total expenditures and transfers out over total revenues and transfers in is solely attributable to City Council's policy decision to fund the following "one-time" capital projects from FY 2003/04 General Fund carryover funding:

\$2.0 million for neighborhood revitalization south of Camelback Road

\$2.0 million addition to the CIP general fund contingency

\$0.2 million to replace the Police Mounted Patrol Unit's barn at WestWorld

The funding for these "one-time" capital projects totals \$4.2 million and will come from the City's anticipated FY 2003/04 General Fund ending unreserved fund balance. The \$4.2 million will be transferred out of the City's General fund in FY 2004/05 into the Capital Projects fund. Based on Arizona State law, the City's budget is deemed balanced as current year revenues and carryover resources from prior fiscal years are sufficient to cover the proposed total expenditures and transfers out in the coming year.

Beyond FY 2004/05 budget, the excess of total expenditures and transfers out over total revenues and transfers may be addressed through reductions in expenditures, improvements in revenue forecasts and/or a combination of these actions.

General Fund Balance/Reserves/Operating Contingency

Fund Balance/Reserves/Operating Contingency protects the City's financial condition and provides for unexpected economic challenges. Growth of fund balance occurs when revenues exceed expenditures. Fund balances are similar to a company's net equity (assets less liabilities) and should only be used for nonrecurring (non-operational) expenditures, since once they are spent they are only replenished by future year resources in excess of expenditures.

The City's budget planning and adopted financial policies call for the establishment of reserves and an operating contingency as part of the resource allocation/limit setting process. This process allows the City to "set aside savings" before it is allocated or spent as budgeted expenditures. The specific make-up of the City's fund balance, reserves and operating contingency are noted below:

General Fund Reserve continues the City's adopted financial policy of setting aside a reserve to protect Scottsdale in times of emergency. This is the City's "savings account," and it is important to note that most of these funds are from "carry over", and once they are spent it will be difficult, if not impossible, to rebuild the reserve. It is financially prudent to have a minimum General Fund Reserve of 10 percent of the General and Highway User Revenue Funds total annual operating costs. For FY 2004/05, the General Fund Reserve includes an additional \$2.0 million for potential settlements related to ongoing taxpayer refund audits. Based on the revenue and expenditure estimates included in the adopted budget, the ending FY 2004/05 General Fund Reserve is projected to be approximately \$24.3 million. Maintaining the General Fund Reserve is very important to the municipal credit rating agencies and in retaining the City's triple AAA bond ratings. It should be noted that the revenue sources that help build the General Fund Reserve during good economic times are considered "elastic" and; therefore, are subject to downturns during recessionary times.

Economic Investment is set aside by the City Council for strategic economic development investments that demonstrate clear returns to the community. The projected FY 2004/05 ending balance is slightly over \$9.0 million. The budget includes partial funding in FY 2004/05 (in conjunction with \$223,429 of bed tax contributions) for the \$304,321 initial debt service payment and investment in the Loloma Museum. During FY 2004/05, the City anticipates paying out of the Economic Investment an additional \$0.5 million toward the Mayo T-Gen loan and repayments are expected in the following fiscal year. The budget also includes \$8.0 million of the projected \$16.2 million ending FY 2003/04 General Fund unreserved balance for "one-time" Economic Investment projects in FY 2004/05.

Operating Contingency of \$2.5 million is included to meet unforeseen expenses during the fiscal year.

Open Purchase Order Reserves of \$4.4 million are anticipated and adopted (i.e., carry forward as appropriated) from FY 2003/04 that will be completed and paid after the June 30 fiscal year-end. This reserve provides a funding source for these year-end carryover budget expenditures.

Unreserved Fund Balance is the remainder after considering all of the other reserves/uses. The ending unreserved fund balance is projected at approximately \$2.1 million, which represents the cumulative General Fund revenues not designated for a specific purpose. This amount represents an accumulation of one-time revenues and is most appropriately used for one-time expenditures. Under prudent fiscal management practices, this amount should not be used to fund new or expanded programs with ongoing operating expenses. Of the projected \$16.2 million ending FY 2003/04 unreserved balance, City Council allocated and appropriated \$12.2 million towards the following "one-time" projects in FY 2004/05: \$2.0 million for Neighborhood Revitalization south of Camelback Road, \$8.0 million added to Economic Investment, \$0.2 million for Police Mounted Barn Replacement, and \$2.0 million added to the CIP General Fund contingency.